Headquarters U.S. Air Force

Integrity - Service - Excellence

Air Force Housing Privatization Program Overview and Issues

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Military Family Housing Current Situation

- By 2004, AF housing inventory will be 104,000 units
  - 40,000 of those will be inadequate worldwide
    - Family Housing Master Plan (FHMP) focuses fixing the “worst-first”
    - FHMP is synchronized with mission changes, A-76, etc through FY2010
  - AF goal (OSD Goal) is to eliminate all inadequate units by 2007
    - Under current funding, goal is met in 2010
    - The 2002 FHMP programs up to 15 more installations
    - Re-looking at severability to accelerate 2007 goal

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Military Family Housing Current Solution

- **Consistent with OSD's 3-pronged strategy, AF will provide standard housing for our members and their families through:**
  - **MILCON**
  - **Privatization where severable and economically feasible**
  - **Increasing BAH allowing 60% of members to live adequately in local communities**

Sustain Military Culture in Privatized Housing

- House military families in Air Force communities
  - No out-of-pocket costs
  - Housing grouped by officer/enlisted and grade in community setting
  - Secure communities
  - Community activities centered around ancillary facilities -- playgrounds, sports courts, community center, etc.
  - High standards of appearance
  - Ability to interact with leadership in town meetings

e want it to be invisible to a member whether they ar living in AF-owned housing or privatized housing

Recent AF Housing Privatization Conferences

- **Housing privatization process workshop**
  - **Purpose was to review implementation process based on CM Hobson's Wright-Patt 25 Jul 02 memo**
  - **12-16 Aug 02**
  - **Attendees included Air Staff and Secretariat, AFCEE, support contractors, Army RCI, GMAC**
- **Housing Privatization Financial Forum**
  - **Purpose was to bring financiers and bond rating agencies together to spur interest and competition**
  - **19-20 Aug 02**
  - **Attendees included banking, state finance agencies, bond rating agencies, etc.**

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Executive Offsite Meeting 12-16 Aug

- Met 12-16 Aug 02 in Washington to discuss the program--what's right, what's wrong, vector changes
- CM Hobson's perceived concerns for Wright-Patterson project to include:
  - Loan guarantee not needed
  - Negotiate financing separately
  - Award announcement
  - Providing complete information to Congress
- AF leadership concern for lack of program execution
  - Five years into the program--only 5 of 28 projects awarded
  - Continual project delays resulting in slippage of schedules
- Focus on "inside the beltway" processes

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Congressman Hobson's 25 Jul 02 Letter: Concerns About the AF Program

- **Loan Guarantees only under "the most limited set of circumstances"**
  - **Spelled out in contract: "nothing left to chance" if BRAC occurs**
- **The Air Force Housing Privatization Process**
  - **"Best Deal" Process precludes bidding the financing**
  - **WPAFB might be less expensive if financing was negotiated**
  - **No dates locked in or leases signed until Congress approves**
  - **No town hall meetings/local media involvement either**
- **Responsiveness to Congressional questions**
  - **Information provided in a piecemeal way, not quickly enough**

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Ideal Housing Privatization Project

- No federal loans or subsidies
- No base closure or drawdown guarantees
- Issuance of taxable or tax-exempt bonds to finance
- All new housing to eliminate base deficits
- DoD retains use of property, up to 50 years
- Housing with military priority and no out-of-pocket costs
- Long term profits flow to developer and DoD
- If necessary, use of existing housing to create a revenue stream until new housing is completed
- If necessary, use MILCON to buy down the deal so Basic Allowance for Housing (BAH) is sufficient to pay rents (subsidized rent)

AF Privatization Comparison

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	FY 98 Lackland	98 Robins	98 Dyess	99 Elmendorf	00 Wright-Patt
Avoids federal loans / subsidies	No	No	No	No	No
Avoids limited loan guarantees	No	No	Yes	No	No
Uses taxable / tax-exempt bonds	Yes	No	No	No	No
Retains DoD 50-year land use	No	Yes	N/A	Yes	Yes
Eliminates deficit w / new hsg	N/A	Yes	Yes	Yes	N/A
Provides quality / affordable hsg	Yes	Yes	Yes	Yes	Yes
Gives priority to military	Yes	Yes	Yes	Yes	Yes
Avoids out-of-pocket (OOP)	Yes	Yes	No	Yes	Yes
Uses existing hsg temporarily	Yes	No	N/A	Yes	Yes
Uses MILCON to Buy Deal Down	N/A	N/A	N/A	N/A	N/A

AF Privatization Comparison

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Ideal Deal	Kirtland	Patrick	Hickam	Little Rock	Moody
	FY 99	99	02	01	01
Avoids federal loans/subsidies	No	No	No	No	No
Avoids limited loan guarantees	No	Yes	Yes	No	TBD
Uses taxable/ tax-exempt bonds	Yes	Yes	Yes	Yes	Yes
Retains DoD 50-year land use	Yes	No	Yes	Yes	Yes
Eliminates deficit w / new hsg	N/A	N/A	N/A	N/A	Yes
Provides quality / affordable hsg	Yes	Yes	Yes	Yes	Yes
Gives priority to military	Yes	Yes	Yes	Yes	Yes
Avoids out-of-pocket (OOP)	Yes	Yes	Yes	Yes	Yes
Uses existing hsg temporarily	Yes	Yes	Yes	Yes	Yes
Uses MILCON to Buy Deal Down	N/A	N/A	N/A	N/A	N/A

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Loan Guarantees

- **Limited loan guarantee is part of Section 2873**
  - **Provides payoff of remaining first mortgage balance if an established reduction of military members that can be referred to the project occurs**
  - **Developer must prove he has used all resources and options to be successful**
- **Offered with most initial pilot projects as a test of the authorities**
- **More stringent requirements for use beginning in FY01**
  - **Limited offering**
  - **Requires developer to justify its request for use**

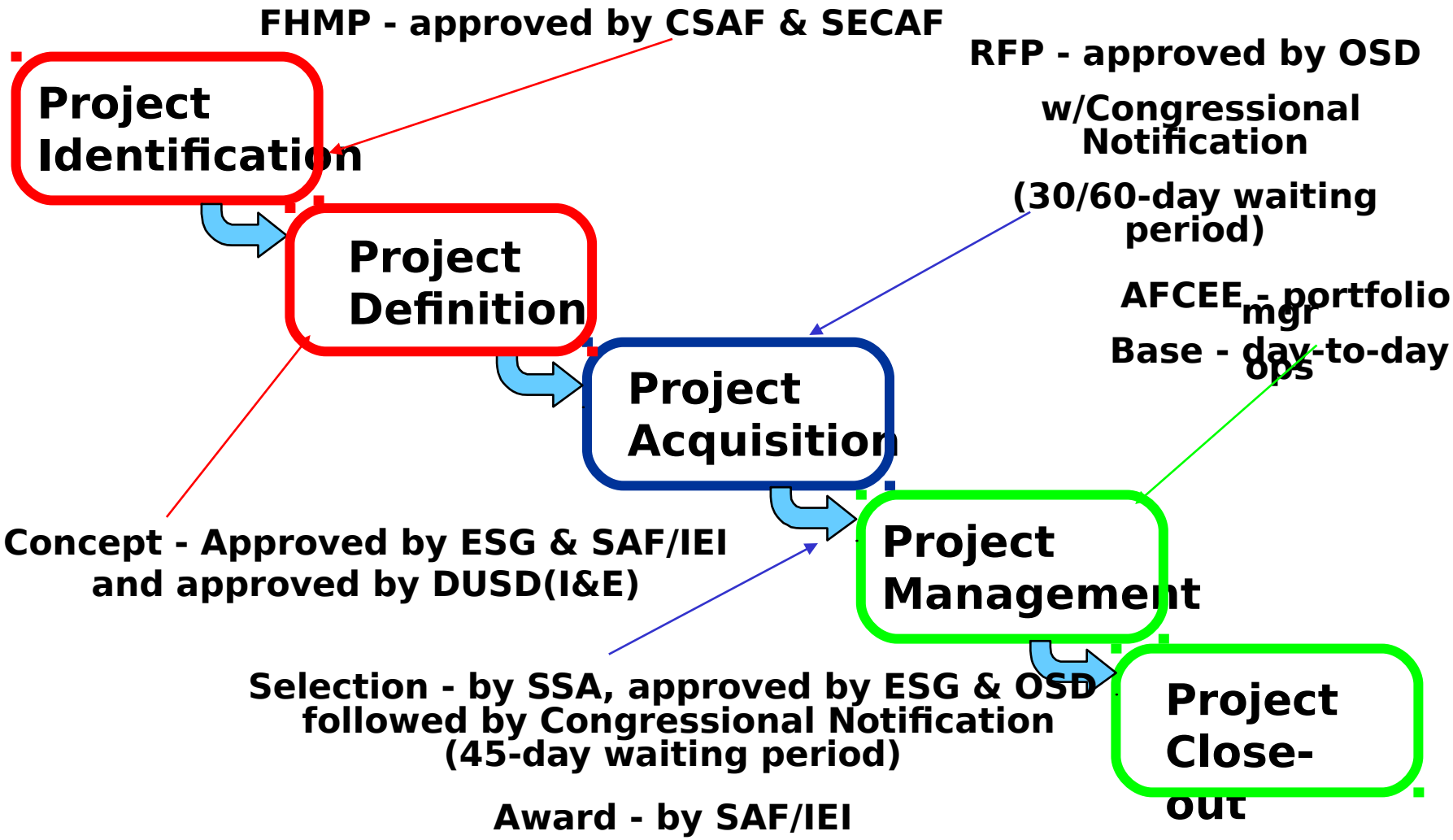
Actions During the 45-day Award Notification Period

- **In order to close on the projects in a timely manner, AF, developer, lenders, legal representatives need to continue actions during the 45-day Congressional notification period for award**
  - **Finalize Lease, Limited Loan Guarantee, Direct Loan**
  - **Senior and Construction Loans**
  - **Environmental assessments/agreements (LBP, Asbestos, Environmental Baseline Surveys)**
  - **Title and Survey matters**
  - **Finalize language for standard tenant lease**
  - **Construction documents, contracts, schedules**
  - **Developer organization documents**
  - **Member leases and allotments**
  - **Set tentative closing date**

Actions During the 45-day Award Notification Period

- No public notification of the prospective successful offeror
- No tenant leases signed
- No town hall meetings
- Briefings to be brought to Congress will include synopsis of project requirements, financing, and scope
  - Will be available at the start of the 45-day congressional notification period

Current Briefing/Approval Points


FHMP - approved by CSAF & SECAF
RFP - approved by OSD
w/Congressional Notification
(30/60-day waiting period)
AFCEE - portfolio mgr
Base - day-to-day ops
Project Identification
Project Definition
Project Acquisition
Project Management
Project Close-out
Concept - Approved by ESG & SAF/IEI and approved by DUSD(I&E)
Selection - by SSA, approved by ESG & OSD followed by Congressional Notification (45-day waiting period)
Award - by SAF/IEI

Revised Briefing/Approval Points

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FHMP - approved by CSAF & SECAF.

Brief IEI and then engage w/ congressional members, staff and state officials

Project Identification

Project Definition

RFP - approved by OSD

Brief SAF/IEI prior to Congressional Notification of Intent to Solicit (30/60-day waiting period)

Step 1 Downselect

Brief SAF/IEI as part of downselect briefing to SSA

Project Acquisition

AFCEE - portfolio mgr

Base - day-to-day ops

Project Management

oncept - Approved by ESG & SAF/IEI and approved by DUSD(I&E)

ief congressional members and staff

SSA Selection - **ESG in dry run briefing w/MAJCOM CE then ESG concurrently with SSA**

followed by Congressional Notification

Award - by SAF/IEI

Project Close-out

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Issues With Overall AF Process

- Our process is sound, don't scrap the process, but:
  - Current AF process needs the following adjustments:
  - Lack of ESG involvement in process
    - Solution: Involve SAF/IEI and ESG at phase points for greater visibility of selection process
  - Concern with overall financial package
    - Solution: Relook use of loan guarantees/scoring
    - Solution: Increase understanding of projects/process with financiers to increase participation/competition
  - Perceived lack of success in AF MHPI Program
    - Solution: Create active marketing program

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Issues with Concept and Definition Phases

- **Major changes in scope of project**
  - **Solution: Develop "living" 1391 to document and control project accountability**
- **Extended RFP development and review timelines**
  - **Solution: Mandate use of generic RFPs for 04 projects**
- **Lack of accuracy in Privatization Predictive Model**
  - **Solution: Use pro forma analysis in place of PPM for FY05 and beyond**
- **Severability**
  - **Solution: Rework RFP to require filling non-severable areas first with military families**
    - **Redefine and readdress with senior leaders**
- **Bundling**
  - **Solution: investigate bundling—same state**
    - **One year to work**

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Issues With Acquisition Phase

- **Work stoppage in the 45 day notification period**
  - **Solution: Determine what is acceptable with staffers**
    - **May have to extend bid acceptance period another 60 days—could result in increased cost to hold bids open**
- **Define the "best deal" for the Air Force**
  - **Solution: Mandate use of Generic RFP Chapters 4 and 5 on ALL projects not actively in source selection to standardize selection parameters**
- **Why the AF process is best for the AF**
  - **Solution: Market AF successes and explain to leadership how this process brings "guaranteed" results**

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What's Right

- Full Force of market on process
- Air Force pre-planning efforts
- Reasonable execution schedule achievable
- Early delivery of scope once signing occurs
- Guaranteed developer performance once signing occurs
  - Puts risk on developer/financier

"Results in guaranteed delivery of proposed scope of work every time"…Dan Ray, GMAC

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Blue Ribbon Financial Forum Findings

- AF RFP process is right for the AF
- Legal documents need to be rated by Wall Street
  - Ensures bond rating capability
- Continue investigating tax-free bond financing
- Engage lenders into concept development process through PSCs
- Financial industry extremely interested, but unsure and unaware of MHPI
- Lenders contend AF needs to change its loan instruments…outdated, not industry standard
- Engage with state finance agency and state housing agency

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Awarded Privatization Projects

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Housing Privatization Bases

- **Completed**
  - Lackland, Robins, Dyess
  - Total of 1,492 units
- **Awarded and under constructi**
  - Elmendorf, Wright-Patterson
  - Total of 2,364 units
- **In acquisition**
  - Kirtland, Patrick, Little Rock, Hickam
  - Total of 4,521 units
- **In development**
  - Dover, Hill, Moody, Offutt, Nellis, Beale, Shaw
  - Total of 8,630 units
- **Summary**
  - FY98-01 12 projects = 11,447 units
  - FY02 10 projects = 10,758 units
  - FY03 5 projects = 4,393 units
  - FY04-05 9 projects = 7,766 units
  - End state: 34,364 units privatized

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Housing Privatization Program Overview

Pilot Projects	Awarded
Dyess	Sep 00
Elmendorf	Mar 01
Lackland	Aug 98
Robins	Sep 00
Wright-Patterson	Aug 02

Projects in Solicitation FY05	
Hickam	Dec 02
Kirtland	Dec 02
Little Rock	Dec 02
Patrick	Dec 02

Pilot to be Advertised	
Dover	TBD

FY01	Advertise
Hill	Jan 03
Moody	Jan 03
Offutt	Jan 03

FY02	Advertise
Altus	Mar 03
*Barksdale**	*Feb 03*
Beale	Feb 03
Buckley	Feb 03
Elmendorf II	Feb 03
Lackland II	Mar 03
Langley	Nov 03
McGuire	Apr 03
Nellis	Jan 03

FY03	Advertise
Cannon	Sep 03
*FE Warren**	*Oct 03*
Hanscom	Jan 03
Maxwell	Mar 03
*Shaw**	*Jun 03*

FY04	
Hurlburt	Columbus
Luke	Holloman
McChord	Keesler
Sheppard	Scott
Tinker	

** Note: FY Shift in Progress*

Total Program: 36 Projects ~ 34,000+ homes

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What's Right

- **Execution process is right for the Air Force**
  - **Air Force pre-planning efforts outline requirement**
  - **Reasonable execution schedule achievable**
  - **Full Force of market on process - competition is there!**
  - **Immediate delivery of housing once signing occurs**
  - **Guaranteed developer performance once signing occurs - process puts risk on developer and financier**

"Results in guaranteed delivery of proposed scope of work every time"...Dan Ray, GMAC

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Air Force Severability Analysis

- Air Force is re-looking at severability decision
  - AF/IL interplay with MAJCOM/CVs is identifying additional privatization candidates
- CSAF has waived two installations to include non-severable housing in privatization project
  - Hill AFB and Patrick AFB
- Policy memo in draft to include non-severable housing in privatization initiatives
  - Would require developer to place non-military tenants in severable housing first and military families in non-severable housing

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Future Challenges

- New OSD housing requirements determination process
  - Will require examination of all 18 projects not yet in solicitation
  - $1M bill plus 6 to 9 month delay to verify requirement
- “Bow-wave” of project packages next 6-8 months
  - 31 active projects through FY05
  - Ability of staff to handle the load - manpower and training for housing privatization limited
- Interest rates could increase causing cost increases
- As the number of deals increase, so does the number of congressional concerns
- Upcoming BRAC rounds … ???

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Conclusion

AF/ILEHM Team

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